

BUDGET LETTER

SUBJECT: EXPENDITURE AUTHORIZATION CONTROLS	NUMBER: 15-10
REFERENCES: BUDGET ACT OF 2015 (CHAPTER 10, STATUTES OF 2015 AND CHAPTER 11, STATUTES OF 2015), BUDGET LETTERS 04-23, 05-30, 06-06, AND 07-05.	DATE ISSUED: July 24, 2015 SUPERSEDES: BL 14-10

TO: Agency Secretaries
Department Directors
Departmental Budget and Accounting Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

I. GENERAL POLICY

State policy must be administered in accordance with the plan of expenditures approved by the Legislature. Any subsequent adjustments are limited to **critical and unanticipated** needs and must comply with Budget Act control section provisions, other statutes, and the unanticipated cost funding process for the 2015-16 fiscal year.

Full Compliance and Timely Submittal of Requests are Mandatory

Each Agency Secretary and Department Director is responsible for compliance with the provisions of the Budget Act, as well as other administrative and statutory requirements controlling expenditures. Agency Secretaries and Department Directors must ensure that all program managers who exercise delegated powers over expenditures are thoroughly knowledgeable about all expenditure controls and the potential consequences for non-compliance. However, ***the ultimate responsibility for managing within appropriations rests with each Agency Secretary and Department Director.***

Departments are required to comply with the provisions of the Budget Act, **and must submit timely requests to the Department of Finance (Finance).** Timely submittal of requests gives the Legislature the time they need to conduct a meaningful review of these requests. If the Executive Branch is to retain the needed flexibility to administer state programs, it must be respectful of the Legislature's role in appropriating funds. Full compliance with reporting requirements and restrictions enacted by the Legislature and timely submittal is mandatory.

In addition to the expenditure controls cited above, the Budget Act items or Control Sections described in Sections II through VI of this Budget Letter (BL) contain provisions regarding the limitations and notifications required with respect to expenditure adjustments. Finance will not submit budget adjustments to the State Controller's Office that do not fully comply with these requirements.

Control Section 32.00 of the Budget Act and Government Code Section 13324 provide that state officers **are expressly forbidden** to make any expenditure in excess of their appropriation. Any officer or employee, except those specified in Control Section 32.00, who creates any indebtedness in excess of their appropriation, can be held personally liable for the amount of such unlawful indebtedness. Departments must inform Finance promptly if they become aware of a funding shortage situation.

II. ITEM 9840—FUNDING FOR CONTINGENCIES OR EMERGENCIES

Item 9840 of the 2015 Budget Act details the process for unanticipated cost funding. Requests to fund unanticipated costs made pursuant to this item are limited to unanticipated expenses incurred during the 2015-16 fiscal year for an existing program. Unanticipated costs may be funded through an allocation from the 9840 items or through a supplemental appropriations bill. In either situation, the request must be in compliance with the provisions of the 9840 items. Please refer to previous BLs and the 9840 items in the Budget Act for additional information and specific requirements related to unanticipated cost funding.

A transfer of approved funds from Item 9840 shall not be authorized until 30 days after the Director of Finance provides written notification to the Legislature.

III. SECTION 8.50—FEDERAL FUNDS

Section 8.50 expresses legislative intent that applications made by state agencies for federal funds shall be for the maximum amount allowable under federal law. In addition, this section appropriates **unanticipated** amounts received from the federal government, subject to provisions of the Budget Act that apply to the expenditure of these amounts, including Section 28.00 (see Section 28.00 of the Budget Act for specific reporting requirements). Section 8.50 contains legislative reporting requirements if federal funds for block grants or any budget item receiving federal funds are reduced by more than 5 percent of the amount appropriated in the Budget Act.

IV. SECTION 26.00—INTRASCHEDULE TRANSFERS

Section 26.00 authorizes the transfer of funds within an item of appropriation. Augmentations of any line of any schedule are limited by amount or percentage, as specified. In addition, transfers may not establish a new program, project, or function. Any transfer in excess of \$200,000 requires a 30-day advance notification letter to the Legislature. A waiver of the 30 days may be requested.

V. SECTION 28.00—ADDITIONAL FUNDS RECEIVED FROM NON-STATE SOURCES

Section 28.00 authorizes Finance to approve the expenditure of **unanticipated** funds to be received from federal, local governments, or any other non-state entity. However, it does not provide authority to create a new item of appropriation (Section 8.50 provides authority to appropriate unanticipated federal funds). Regardless of the source of the additional funding, any augmentation that exceeds either \$400,000 or 10 percent of the amount available for expenditure in the affected program, project, or function must be reported to the Legislature and may not be authorized until 30 days after the notification. Therefore, no proposed expenditure may be made from any additional funds reported in a Section 28.00 letter from Finance to the Legislature until the notification period has elapsed. This reporting requirement does not apply to federal funds related to caseload increases in the Medi-Cal, CalWORKs, and Supplemental Security Income/State Supplementary Payment programs.

Augmentations for items for which the Administration had knowledge to include in its current budget plan should not be submitted through Section 28.00. Augmentations for items which can be deferred to the subsequent budget year should be included in the Administration's 2016-17 budget proposals.

In order to receive consideration for an augmentation, departments are required to either (1) notify Finance within 45 days of receiving official notice of the availability of additional, unanticipated federal or non-state funds, or (2) explain in writing to Finance why the notification was infeasible or impractical. In either case, the department must provide Finance a copy of the official notice of fund availability. If a department expends funds without proper approval, it will be required to absorb such expenditures within its existing appropriations or sponsor legislation to authorize the expenditure.

VI. SECTION 28.50—ADDITIONAL FUNDS RECEIVED FROM STATE SOURCES

Section 28.50 authorizes Finance to approve a state department's expenditure of money received as reimbursement from another state department. Finance approvals that exceed \$200,000 must be reported to the Legislature and may not be authorized until 30 days after the notification. However, if the funding for the department providing the reimbursements has been approved by the Legislature, these approvals are considered technical in nature and are authorized in Section 1.50 of the Budget Act.

Technical guidelines for Sections 8.50, 26.00, 28.00, and 28.50 are available in the Commonly Used Control Sections to Revise Budgets write-up at:

<http://www.dof.ca.gov/fisa/bag/documents/Commonly%20Used%20Control%20Sections%20to%20Revise%20Budgets.doc>

Please contact your Finance budget analyst if you have any questions regarding expenditure authorization controls or the above mandated reporting requirements.

/s/ Keely Bosler for

TODD JERUE
Chief Operating Officer